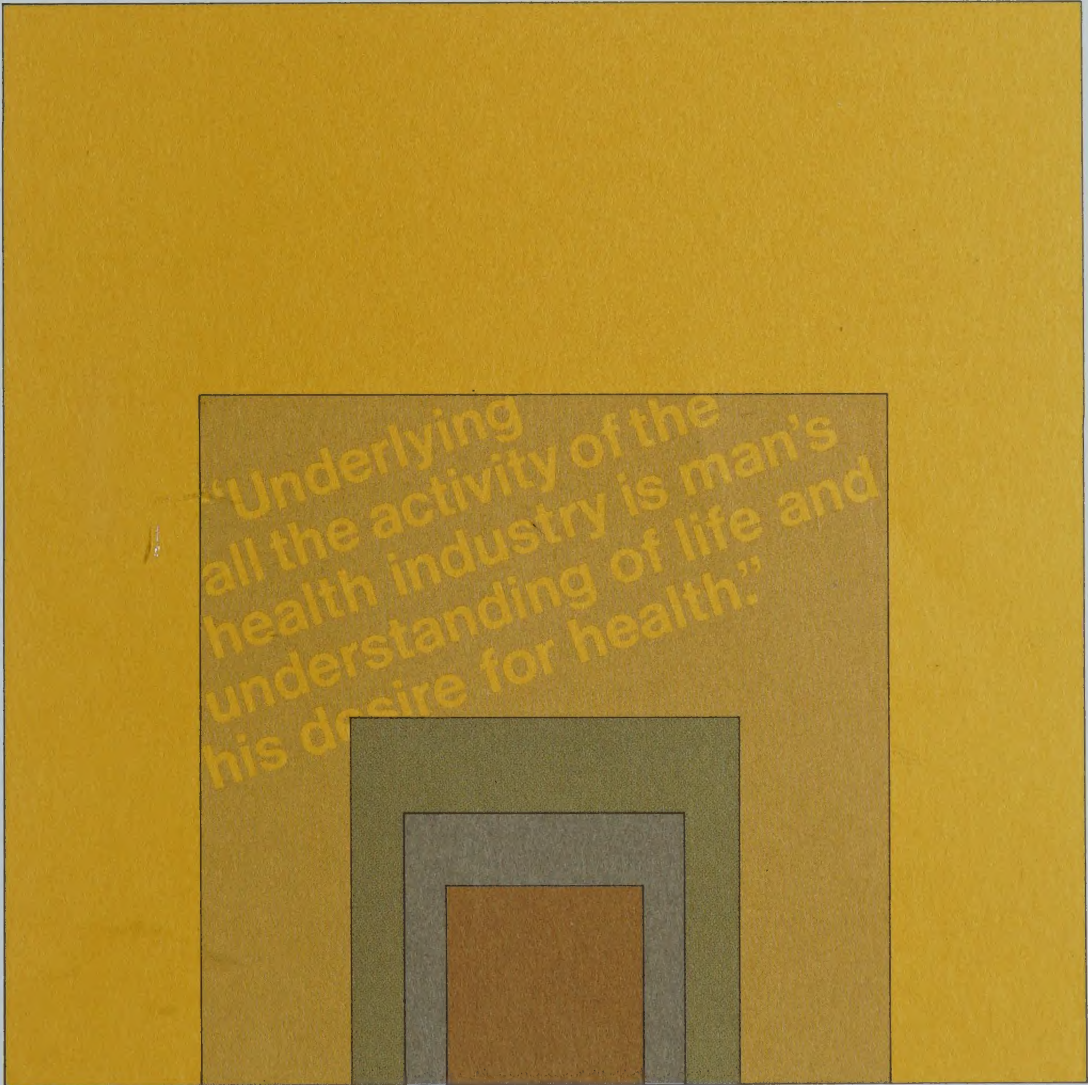


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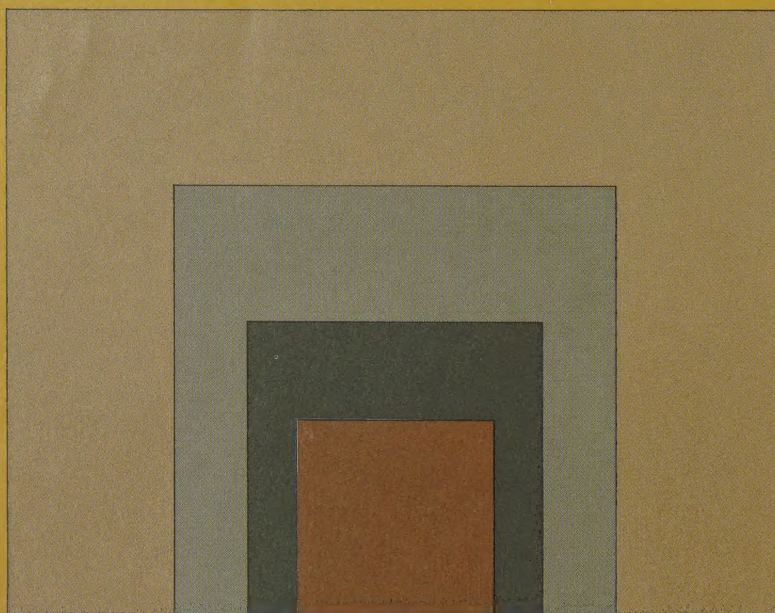
Stockholders' Meeting:

The annual meeting of stockholders will be held at 10 a.m. on Saturday, May 4, 1968, in the auditorium of Evanston Township High School, 1600 Dodge Avenue, Evanston, Ill. Notice of meeting and proxy material will be mailed to stockholders. Owners unable to attend are urged to sign and return their proxies promptly.

The cover quotation is an excerpt from an editorial feature which begins on page 17 of this report.

1967 in Brief:

	1967	1966	% Incr.
Net sales	\$273,548,000	\$231,712,000	18
Earnings before federal income taxes	28,348,000	24,444,000	16
Net earnings	15,188,000	12,535,000	21
Net earnings as a percent of net sales .	5.6%	5.4%	—
Net earnings per share	1.63	1.35	21
Number of shares outstanding	9,317,000	9,314,000	—
Dividends paid	4,882,000	3,965,000	23
Dividends paid per share	0.525	0.425	24



To Our Stockholders:

American Hospital Supply Corporation achieved record net earnings, record earnings per share and record sales in 1967. It was the fourteenth consecutive year in which record increases were made in all three categories.

Net earnings were \$15,187,980, an increase of 21 per cent over 1966 earnings of \$12,535,106. Earnings per share also rose 21 per cent to \$1.63 from \$1.35 for the prior year. Net sales of \$273,548,101 represented an 18 per cent increase over 1966 sales of \$231,711,953.

Dividends

In keeping with the Corporation's policy of reflecting increased earnings in its dividend payments to stockholders, the board of directors last year voted a 20 per cent increase in the dividend rate. The annual rate of dividend was thus increased from 50 cents to 60 cents per share of common stock. Dividends paid to stockholders in 1967 totaled \$4,882,209, an increase of 23 per cent over payments of \$3,965,214 in 1966.

Sales and Earnings Comment

In 1967, major product areas as a percentage of consolidated net sales were: hospital supplies, equipment and furnishings (including rehabilitation, dietary and nursing home products), 50 per cent; laboratory supplies and equipment, 37 per cent; ethical pharmaceuticals and related products, 8 per cent; miscellaneous (school uniforms, industrial supplies, dental equipment, etc.), 5 per cent.

A number of market trends and new products contributed to our sales records.

Among them were a urology examining table (V. Mueller Division), disposable capillary pipettes (Dade Reagents), a non-barbiturate hypnotic and sedative for geriatric patients (Arnar-Stone Laboratories), rubber-jawed surgical clamps to minimize tissue damage (Edwards Laboratories), a flexible dental console (Midwest American Dental Division), an alternating pressure pad for the comfort of bedridden patients (Institutional Industries Division), disposable shoe covers for surgery (Zimmon & Co.) and a nylon and steel restrainer for more careful handling of laboratory animals (Acme Metal Products).

Pharmaseal Laboratories expanded its in-service training program for hospitals with the addition of new teaching aids. Bruck Uniform Co. formed a mail-order sales department for the school market. The Harleco Division introduced new clinical reagents for use in automated diagnostic equipment. American Hospital Supply Division's "Tel American" electronic purchasing system was expanded to cover more than 300 hospitals. Scientific Products added several new disposable products for clinical and industrial laboratories. A new standardized line of "Surg-O-Paks", containing patient drapery and table covers for surgery, was introduced by our Convertors Division.

International sales, including Canada, accounted for 14 per cent of 1967 sales. Of note in our international activities was the completion of a contract to completely equip four new hospitals in Ecuador.

Products of our own manufacture accounted for 37 per cent of our total 1967

sales as compared with 35 per cent in 1966. Sales increase generated by acquisitions represented only about one-half of one per cent of total 1967 sales.

Acquisitions

American's manufacturing position was enhanced through the acquisition of Zimmon & Co., Inc., Belmont, Calif. Zimmon manufactures sewn disposable paper products—including some surgical wearing apparel—for hospital markets. The company reported nine-month sales of \$1,084,512 and earnings of \$77,283. Acquisition was for 16,835 shares of American Hospital Supply Corporation stock.

In November, we announced that Hamilton Manufacturing Co., Two Rivers, Wisc., agreed in principle to combining that company with American Hospital Supply Corporation. Hamilton is engaged in producing furniture and equipment for educational, hospital and industrial laboratories and for the medical and dental professions. The company also manufactures home laundry equipment, drafting room equipment, printing cabinetry and mobile and folding furniture for schools and industry.

The transaction contemplated by the agreement, which is subject to approval by Hamilton stockholders and a favorable tax ruling by the Internal Revenue Service, provides for the exchange of .715 (715 thousandths) of a share of American's stock for each of the issued and outstanding shares of Hamilton, subject to possible adjustments. (See Note "F" following consolidated financial statements.) There were

1,098,600 shares of Hamilton common stock outstanding on September 30, 1967.

Hamilton reported sales of \$31,190,000 for the first nine months of 1967 with earnings of \$1,990,000 for that period. The company previously announced 1966 sales of \$39,049,000 and net earnings of \$2,136,000. Hamilton has two plants in Two Rivers and a third in Kosciusko, Miss.

During 1967, the Corporation also acquired a 50 per cent interest in three Spanish companies (Laboratorios Grifols, S.A., Dade Grifols, S.A., and Gri-Cel, S.A.) and a 50 per cent interest in a newly formed French company, Cooperation Europeene de Fournitures Hospitalieres, S.A.R.L. The companies are engaged in the manufacture and distribution of intravenous solutions, laboratory chemicals and reagents, disposable hospital products and related items.

Facilities

The Corporation's new construction and expansion activities reached record levels in 1967 as we provided for current needs and made plans for future expansion.

Work has begun on two major complexes. In August, we purchased 227 acres of land near North Chicago, Ill., as the first step in the development of an industrial campus. First phases of construction will begin about May, 1968, with groundbreaking for 300,000 square feet of warehouse space and 75,000 square feet of offices to be used by the American Hospital Supply, Scientific Products and McGaw Laboratories Divisions. Construction of a central heating and power plant also will begin in May. Subsequent phases will include man-

ufacturing facilities, and the completed campus eventually may have as many as 12 buildings.

Three buildings are in progress at the Corporation's Irvine Ranch Industrial Plaza near Newport Beach, Calif. These will provide sales and distribution facilities for the American Hospital Supply and Scientific Products Divisions, and manufacturing facilities for the Harleco and Convertors Divisions. The buildings should be completed by June, 1968.

The V. Mueller Division opened a new plant for the manufacture of surgical instruments in Fort Lauderdale, Fla., in September. An addition of 30,000 feet of manufacturing space is nearing completion in the Division's Niles, Ill., facility.

In March, the American Hospital Supply and Scientific Products Divisions began operations of a new 135,000 square-foot eastern area headquarters in Edison Township, N.J.

The new southwest area sales and distribution center for the American Hospital Supply and Scientific Products Divisions was opened in December. This building, in the Great Southwest Industrial Park located between Dallas and Fort Worth, Texas, provides more than 116,000 feet of office and warehouse space. These two divisions also added 25,000 feet of warehouse space to their Washington, D.C., center. Completion of a new 42,000-foot warehouse-office facility in Kansas City, Mo., is planned for May, 1968.

Dade Reagents, Inc. has acquired options on 56 acres of land in Miami, Fla., pending zoning approval for light manufacturing. Our Canadian Laboratory

Supplies Limited subsidiary has begun construction of a 43,000-foot warehouse addition in Toronto.

Additional warehouse space for Pharmaseal Laboratories was completed at both the Johnson City, Tenn., and Irwindale, Calif., sites. The two projects added a total of 84,000 square feet to Pharmaseal's warehouse capacity. Pharmaseal also began construction of a 10,000-foot engineering office and 4,000-foot biological and bacteriological laboratory at Irwindale. Completion is scheduled for March, 1968.

McGaw Laboratories moved into new offices in Glenview, Ill., and also completed an addition of 34,000 feet to its Milledgeville, Ga., plant.

In all, some 790,000 square feet of facilities for the Corporation were either completed or begun in 1967. The projects include more than 313 acres of land. At the close of 1967, gross book value of the Corporation's plants, property and equipment was \$46,310,445; about \$8,139,000 higher than a year earlier.

Personnel

Growth of the Corporation was marked in people as well as facilities. There were 8,269 employees of American Hospital Supply Corporation at the end of 1967. A year earlier, there were 7,185. Payroll and fringe benefit expenditures rose 21.5 per cent over 1966 and totaled \$58,638,930.

Management changes during 1967 included the election of Robert K. DiVall, treasurer, to vice-president of the Corporation. Robert F. Peters was appointed to the newly created position of president of the International Division. Mr. Peters,

formerly a vice-president of Upjohn International, Inc., also was named a vice-president of the Corporation.

Louis Edward S. Santamaria was appointed president of our subsidiaries in Mexico. Mr. Santamaria formerly was president of the Chemway Corporation.

James J. Bennett was appointed president of the Midwest American Dental Division. Mr. Bennett succeeded Martin Staunt, founder of the company and president until his retirement early last year. Mr. Staunt has continued to serve as a consultant to the company in areas of new products and engineering.

Will R. Pierie was appointed general manager of Edward Laboratories, Inc., and was named a vice-president of the subsidiary. Hal Zimmon continues as president of Zimmon & Co., Inc., following acquisition of that company.

Other Events

On December 31, 1967, several subsidiaries were liquidated and now are operated as divisions of the Corporation. (Please see the listing of divisions and subsidiaries on page 8.) This action, as part of a plan for corporate simplification, in no way changed the operations or business nature of the units involved.

Stockholders, voting at the Corporation's annual meeting in May, elected two new directors. They are Robert C. Keck (corporate secretary and a partner in the Chicago law firm of Spray, Price, Hough & Cushman) and Richard N. Mackay, (a partner in the Los Angeles law firm of Mackay, McGregor and Bennion).

Their election followed the decision of

two directors who, in accordance with board retirement policies, did not stand for reelection. Charles F. Hough had been a director since the founding of the Corporation in 1922. He held a series of key positions including senior legal counsel, secretary of the Corporation and member of the executive committee. A. Calder Mackay had been a board member since 1950. Before that, Mr. Mackay had served as legal counsel and member of the board of directors of Don Baxter, Inc., now McGaw Laboratories Division. In appreciation for their combined 81 years of service to the Corporation, the new board named Mr. Hough and Mr. Mackay honorary directors for life.

Our report on 1967 would be incomplete without an expression of thanks to these two men and to the board of directors which guided us in this year of progress. Nor would we omit a note of appreciation to our stockholders and employees. It is upon their support and with their efforts that the future of American Hospital Supply Corporation is being built. Sincerely,

Foster G. McGaw Harry K. DeWitt

February 13, 1968

Chairman F. G. McGaw and President H. K. DeWitt



Foster G. McGaw
Chairman of the Board,
American Hospital Supply Corp.

Thomas G. Murdough
Vice-Chairman of the Board,
American Hospital Supply Corp.

Harold H. Anderson
Chairman, Publishers-Hall Syndicate

Austin T. Cushman
Chairman, Board of Trustees, Savings
& Profit Sharing Pension Fund
of Sears, Roebuck & Co. Employees

Harry K. DeWitt
President,
American Hospital Supply Corp.

James J. Griffiths, M.D.
President, Dade Reagents, Subsidiary of
American Hospital Supply Corp.

Joseph C. Hinsey, Ph.D.
Medical Educator

Robert C. Keck
Partner,
Spray, Price, Hough & Cushman

Richard N. Mackay
Partner,
Mackay, McGregor & Bennion

J. Roscoe Miller, M.D.
President, Northwestern University

Graham J. Morgan
President, United States Gypsum Co.

Christian G. Schmidt
Group Vice-President,
American Hospital Supply Corp.

Kenneth V. Zwiener
Chairman of the Board,
Harris Trust and Savings Bank

Honorary Directors

Emery S. Beardsley
 Charles F. Hough
 A. Calder Mackay

General Counsel
 Spray, Price, Hough & Cushman,
 Chicago

Stock Transfer Agents
 Harris Trust and Savings Bank, Chicago
 The Chase Manhattan Bank, New York

Registrars of Stock
 The Northern Trust Company, Chicago
 Irving Trust Company, New York

Stock Listings
 New York Stock Exchange
 Midwest Stock Exchange

Foster G. McGaw
Chairman of the Board

Thomas G. Murdough
Vice-Chairman of the Board

Harry K. DeWitt
President
and Chief Executive Officer

Christian G. Schmidt
Group Vice-President

J. Wendell Crain
Group Vice-President

Robert M. Baker
Controller

George I. Blomquist
Vice-President—Federal

Robert K. DiVall
Vice-President and Treasurer

Robert C. Keck
Secretary

Robert F. Peters
Vice-President—International

Erwin G. Kuchel
Vice-President

William F. Porter
Vice-President

James Ruff
Vice-President

Ralph V. Seaman, Jr.
Vice-President—Personnel

Robert J. Foote
Assistant Treasurer

John L. Koonce
Assistant Treasurer

Miss Gladys Holm
Assistant Secretary

John W. Hough
Assistant Secretary

James R. Hull
Assistant Secretary

Arthur W. Johnson
Assistant Secretary

Divisions and Subsidiaries

American Hospital Supply Corporation
Executive Offices:
1740 Ridge Avenue
Evanston, Illinois 60201

U.S. Divisions

American Hospital Supply Division
General Offices: Evanston

Burma Latex Products Division
Talmadge, Ohio

Convertors Division
Newark, N. J.

Harleco Division
General Offices: Philadelphia, Pa.

Institutional Industries Division
Cincinnati, Ohio

McGaw Laboratories Division
General Offices: Glendale, Calif.

Midwest American Dental Division
Melrose Park, Ill.

Pharmaseal Division
General Offices: Glendale, Calif.

Scientific Products Division
General Offices: Evanston

V. Mueller Division
General Offices: Niles, Ill.

U.S. Subsidiaries

Acme Metal Products, Inc.
Chicago

American Hospital Credit Corporation
Evanston

Arnar-Stone Laboratories, Inc.
Mount Prospect, Ill.

Bruck's Inc.
New York City

Bruck Uniform Company, Inc.
General Offices: New York

Campbell Laboratories, Inc.
Evanston

Collegiate Outfitting Company, Inc.
New York

Dade Reagents, Inc.
Miami, Fla.

Edwards Laboratories, Inc.
General Offices: Santa Ana, Calif.

Pharmaseal Laboratories
General Offices: Glendale, Calif.
Zimmon & Co., Inc.
Belmont, Calif.

Canadian

American Hospital Supply Corporation
(Canada) Limited
General Offices: Toronto

Canadian Laboratory Supplies Limited
(Canlab)
General Offices: Toronto

Pharmaseal Laboratories Limited
Toronto

Texpack Limited
General Offices: Brantford, Ontario

International

International Division
Evanston

American Hospital Supply Export
Corporation (AHSECO)
Evanston

American Hospital Supply Corporation
del Ecuador, S.A.
Quito

American Hospital Supply Corporation
de Mexico, S.A. de C.V.
Mexico City

American Hospital Supply Corporation
de Panama, S.A.
Panama City

American Hospital Supply Corporation
Peru
Lima

American Hospital Supply Corporation
de Puerto Rico, S.A.
San Juan

American Hospital Supply Corporation
de Venezuela, C.A.
Caracas

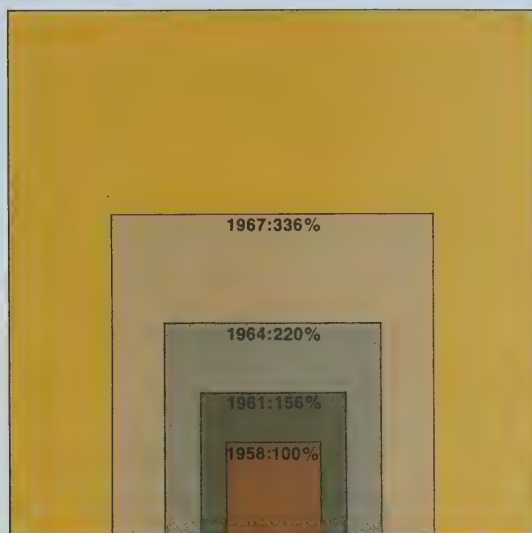
Dade de Mexico, S.A.
Mexico City

Hoffmann-Pinther & Bosworth, S.A.
Mexico City

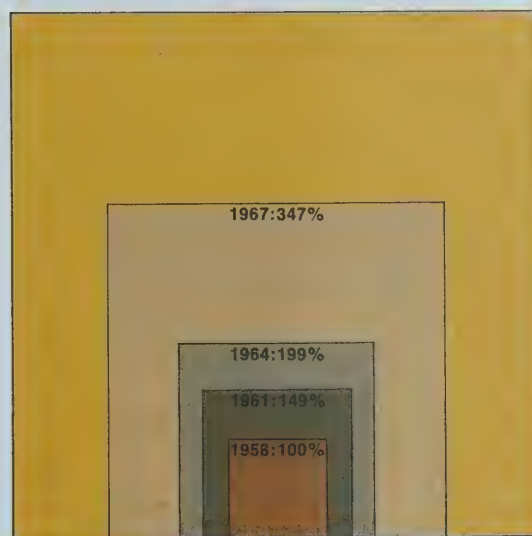
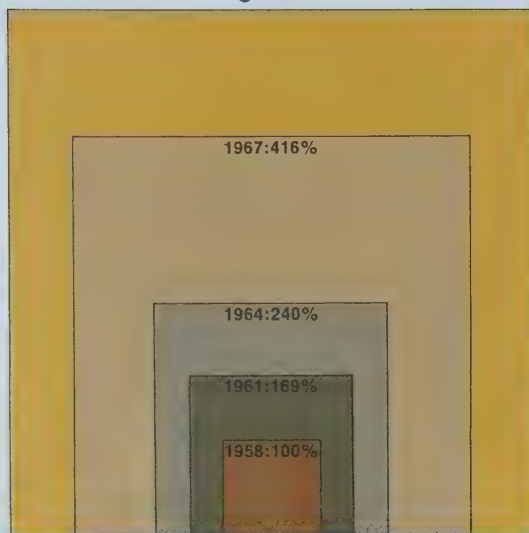
Med-Lab, S.A.
Panama City

There are other domestic and international subsidiary corporations of which American Hospital Supply Corporation is whole or partial owner.

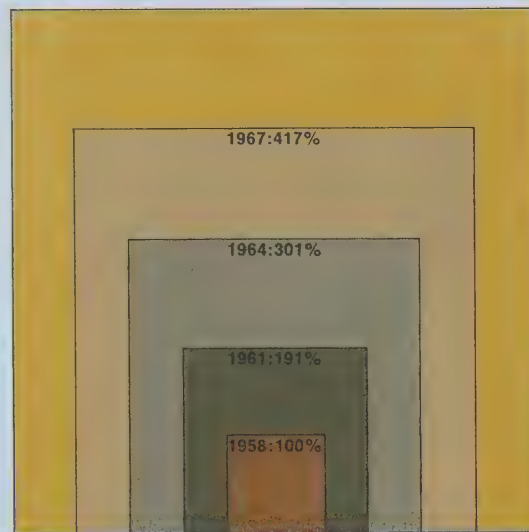
Ten Year Net Sales



Ten Year Net Earnings



Ten Year Earnings Per Share



Ten Year Stockholders' Investment

	Year ended December 31	
	1967	1966
Net sales	\$273,548,101	\$231,711,953
Cost of products sold	<u>180,713,641</u>	<u>153,705,683</u>
	\$ 92,834,460	\$ 78,006,270
Selling, shipping, warehousing and administrative expenses	<u>65,194,821</u>	<u>54,263,181</u>
	\$ 27,639,639	\$ 23,743,089
Other income, principally royalties and interest	1,861,993	1,607,020
Interest expense	<u>1,154,015</u>	<u>906,464</u>
Earnings before federal income taxes	\$ 28,347,617	\$ 24,443,645
Federal income taxes	<u>13,159,637</u>	<u>11,908,539</u>
Net earnings	<u>\$ 15,187,980</u>	<u>\$ 12,535,106</u>
Net earnings per share	<u>\$ 1.63</u>	<u>\$ 1.35</u>

Consolidated Stockholders' Investment American Hospital Supply Corporation and Subsidiaries

	Shares 1967	Year ended December 31	
		1967	1966
Common Stock — no par value, 20,000,000 shares authorized:			
Balance, beginning of year, as previously reported	9,297,094	\$29,588,044	\$29,553,754
Adjustment for pooling of interests—Zimmon & Co., Inc.—Note A	<u>16,835</u>	<u>18,900</u>	<u>18,900</u>
Balance, beginning of year, as restated	9,313,929	\$29,606,944	\$29,572,654
Exercise of stock options	3,020	76,478	54,515
Stock issuance expense	<u> </u>	<u>(9,066)</u>	<u>(20,225)</u>
Balance, end of year	<u>9,316,949</u>	\$29,674,356	\$29,606,944
Retained Earnings:			
Balance, beginning of year, as previously reported		\$55,209,747	\$46,695,367
Adjustment for pooling of interests—Zimmon & Co., Inc.—Note A		<u>111,737</u>	<u>56,225</u>
Balance, beginning of year, as restated		\$55,321,484	\$46,751,592
Net earnings		15,187,980	12,535,106
Cash dividends paid:			
American — \$.525 (1967); \$.425 (1966)		(4,882,209)	(3,928,115)
Pooled company prior to pooling		<u> </u>	<u>(37,099)</u>
Balance, end of year		<u>\$65,627,255</u>	<u>\$55,321,484</u>
Total Stockholders' Investment		<u>\$95,301,611</u>	<u>\$84,928,428</u>

See notes to consolidated financial statements.

Consolidated Balance Sheet American Hospital Supply Corporation and Subsidiaries

	December 31	
	1967	1966
Current Assets:		
Cash	\$ 1,660,475	\$ 1,414,735
Marketable securities		2,282,298
Receivables, less allowances—\$1,574,830 (1967), \$1,040,069 (1966)	51,447,278	49,190,591
Inventories—Note B	58,137,349	44,565,953
Prepaid expenses	<u>1,256,783</u>	<u>1,060,141</u>
Total Current Assets	\$112,501,885	\$ 98,513,718
Other Assets, principally receivables due after one year	4,442,803	3,861,668
Property, Plant and Equipment, at cost:		
Land	\$ 4,655,588	\$ 3,133,221
Buildings	21,630,279	17,961,339
Machinery and equipment	15,907,492	13,304,905
Furniture and fixtures	<u>4,117,086</u>	<u>3,772,095</u>
	\$ 46,310,445	\$ 38,171,560
Less accumulated depreciation	<u>15,343,443</u>	<u>13,068,279</u>
	\$ 30,967,002	\$ 25,103,281
Intangibles, at cost less amortization	<u>559,856</u>	<u>481,958</u>
	<u>\$148,471,546</u>	<u>\$127,960,625</u>

	December 31	
	1967	1966
Current Liabilities:		
Notes payable to banks	\$ 10,589,135	\$ 984,427
Current maturities on long-term debt	367,000	451,402
Accounts payable	16,155,902	13,158,403
Commissions, salaries and withholdings	2,367,057	2,097,035
Retirement and profit-sharing plans	1,717,834	1,466,031
Taxes, other than federal income taxes	1,052,311	1,080,611
Federal income taxes	<u>3,937,196</u>	<u>6,198,254</u>
Total Current Liabilities	\$ 36,186,435	\$ 25,436,163
Long-Term Debt, less current maturities:		
5% Notes payable to financial institutions, due in annual installments of \$800,000 from 1972 through 1985 and balance of \$3,800,000 in 1986	\$ 15,000,000	\$ 15,000,000
Real estate mortgage and other notes	<u>1,983,500</u>	<u>2,596,034</u>
	\$ 16,983,500	\$ 17,596,034
Stockholders' Investment:		
Common stock—Note C	\$ 29,674,356	\$ 29,606,944
Retained earnings (\$26,062,000 unrestricted for the payment of cash dividends at December 31, 1967)	<u>65,627,255</u>	<u>55,321,484</u>
	<u>\$ 95,301,611</u>	<u>\$ 84,928,428</u>
	<u>\$148,471,546</u>	<u>\$127,960,625</u>

See notes to consolidated financial statements.

Year ended December 31, 1967

Source of Funds:

Operations:

Net earnings	\$15,187,980
Depreciation, which did not require use of funds	<u>2,813,633</u>
Total from operations	\$18,001,613
Exercise of stock options	76,478
Decrease in cash and marketable securities	2,036,558
Increase in notes payable to banks	9,604,708
Miscellaneous—net	<u>365,224</u>
	<u>\$30,084,581</u>

Use of Funds:

Increase in inventories	\$13,571,396
Increase in accounts receivable	2,256,687
Additions to property, plant and equipment	\$ 8,777,621
Less disposals	<u>100,268</u>
Dividends to stockholders	4,882,209
Payments on long-term debt	<u>696,936</u>
	<u>\$30,084,581</u>

A. Principles of Consolidation:

The consolidated financial statements include the accounts of the Company and all its subsidiaries.

During 1967, the Company issued 16,835 shares of its previously unissued common stock in exchange for all the common stock of Zimmon & Co., Inc. This transaction has been treated as a pooling of interests in the accompanying financial statements and accordingly the figures for the prior year have been restated.

B. Inventories:

Inventories, valued at the lower of cost (first-in, first-out method) or market, at December 31, 1967, include \$45,429,050 finished merchandise, \$4,833,385 work in process, and \$7,874,914 raw materials.

C. Stock Options:

Under the terms of the Company's stock option plans, options may be granted to officers and key employees of the Company or its subsidiaries. Options granted under the plans are at prices equal to 100% of the market price of the Company's shares at date of grant, are exercisable in five or ten equal annual installments, and expire from five to ten years after the date of grant.

Changes during 1967 under the plans were as follows:

	Shares		
	Reserved	Granted	Available
Balance, January 1, 1967 . . .	319,080	52,580	266,500
Granted		18,000	(18,000)
Exercised at an aggregate price of \$76,478	(3,020)	(3,020)	
Cancelled	(100)	(800)	700
Balance, December 31, 1967	<u>315,960</u>	<u>66,760</u>	<u>249,200</u>
Option price	<u>\$20.00-\$74.88</u>		
Exercisable at December 31, 1967		<u>17,630</u>	

D. Pension Plan:

The Company and most of its subsidiaries have non-contributory pension plans covering substantially all employees after specified periods of service and attainment of minimum age requirements.

The annual contribution is calculated under an actuarial method which essentially spreads the cost of future benefits over the average future service lives of active employees. The Company's policy is to fund pension cost accrued. The pension expense was \$1,040,794 in 1967 and \$870,258 in 1966.

E. Depreciation Policies:

The Company and its subsidiaries provide for depreciation over the estimated useful lives of the respective assets, using an accelerated method of depreciation on all additions to plant and equipment beginning January 1, 1962. For prior years' additions, the straight-line method of computing depreciation is in general use. Charges for depreciation of plant and equipment included in costs and expenses amounted to \$2,813,633 in 1967 and \$2,386,382 in 1966.

F. Recent Event:

The Boards of Directors of American Hospital Supply Corporation and Hamilton Manufacturing Company have approved an Agreement and Plan of Reorganization, dated December 18, 1967, under which American would issue previously unissued common stock in exchange for all of the assets, properties and business of Hamilton Manufacturing Company.

The aggregate number of common shares to be transferred by American to Hamilton is to be on the ratio of exchange of .715 of a share of American common stock for each share of Hamilton common stock outstanding on the closing date (which is to be April 1, 1968). This ratio of exchange is subject to a downward adjustment to the number of shares issued if the net earnings of Hamilton for fiscal 1967 are less than \$2,600,000.

Based on the number of shares of Hamilton common stock outstanding at December 31, 1967, American will issue 785,642 of its common shares.

This proposed business acquisition is subject to approval of Hamilton shareholders in a meeting to be held February 29, 1968. When consummated, this combination will be treated as a pooling of interests for accounting purposes.

The most recently published financial statements of Hamilton report net sales of \$39,049,000 for fiscal 1966, and \$31,190,000 for the nine months ended September 30, 1967. Their reported net earnings for those periods were \$2,136,000 and \$1,990,000, respectively.

Report of Independent Accountants

To the Stockholders and
Board of Directors
American Hospital Supply Corporation
Evanston, Illinois

We have examined the accompanying consolidated balance sheet of American Hospital Supply Corporation and subsidiaries as of December 31, 1967, the related statements of consolidated earnings and stockholders' investment and the statement of consolidated source and use of funds for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly

included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the financial statements referred to above present fairly the consolidated financial position of American Hospital Supply Corporation and subsidiaries at December 31, 1967, the results of their operations and the source and use of funds for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Touche, Ross, Bailey & Smart

January 31, 1968

Ten Year Financial Comparison American Hospital Supply Corporation and Subsidiaries

(\$ and shares in thousands)	1967	1966	1965	1964	1963	1962	1961	1960	1959	1958
Net Sales	\$273,548	\$231,712	\$201,691	\$179,191	\$162,141	\$148,823	\$126,785	\$112,397	\$ 96,454	\$ 81,302
Earnings Before Federal Income Taxes	28,348	24,444	20,230	16,851	13,947	13,809	12,699	10,839	9,265	7,332
% of Net Sales	10.4	10.5	10.0	9.4	8.6	9.3	10.0	9.6	9.6	9.0
Net Earnings	15,188	12,535	10,660	8,778	7,198	6,751	6,164	5,294	4,715	3,654
% of Net Sales	5.6	5.4	5.3	4.9	4.4	4.5	4.9	4.7	4.9	4.5
Net Earnings per Share*	1.63	1.35	1.14	0.95	0.78	0.74	0.70	0.62	0.60	0.47
Provision for Depreciation	2,814	2,386	2,228	1,962	1,736	1,424	1,124	939	814	611
Stockholders' Investment Amount	95,302	84,928	76,324	68,800	62,201	57,562	43,481	38,882	26,818	22,830
Stockholders' Investment per Share*	10.23	9.12	8.20	7.41	6.74	6.34	4.95	4.56	3.41	2.96
Dividends Paid Amount	4,882	3,965	3,502	2,917	2,706	2,358	2,069	1,833	1,568	1,313
Dividends Paid per Share*	0.52½	0.42½	0.36¼	0.31¼	0.28¾	0.25	0.24¼	0.21¾	0.21¼	0.18¾
Working Capital	76,315	73,078	54,128	51,640	47,225	44,313	33,549	30,023	19,553	18,397
Outstanding Shares	9,317	9,314	9,312	9,287	9,235	9,223	8,792	8,522	7,870	7,708

*All per share computations are adjusted for stock splits.
Used average shares of 9,073,319 for 1962.

Health Care: An Industry Outlook

As the first of a series of speakers on the future of major industries, Harry K. DeWitt, president of American Hospital Supply Corporation, was recently invited to address the Harvard Business School Alumni Association in Chicago. His subject was "Health Care: an Industry Outlook." Because Mr. DeWitt's comments may help stockholders better understand some of the markets and trends which are American's concern, brief excerpts from his talk have been printed and illustrated on the following pages:



"Underlying all the activity of the health industry is man's understanding of life and his desire for health. These are not fixed perspectives. They grow and change; they are altered by experience and information, by values and expectations . . .

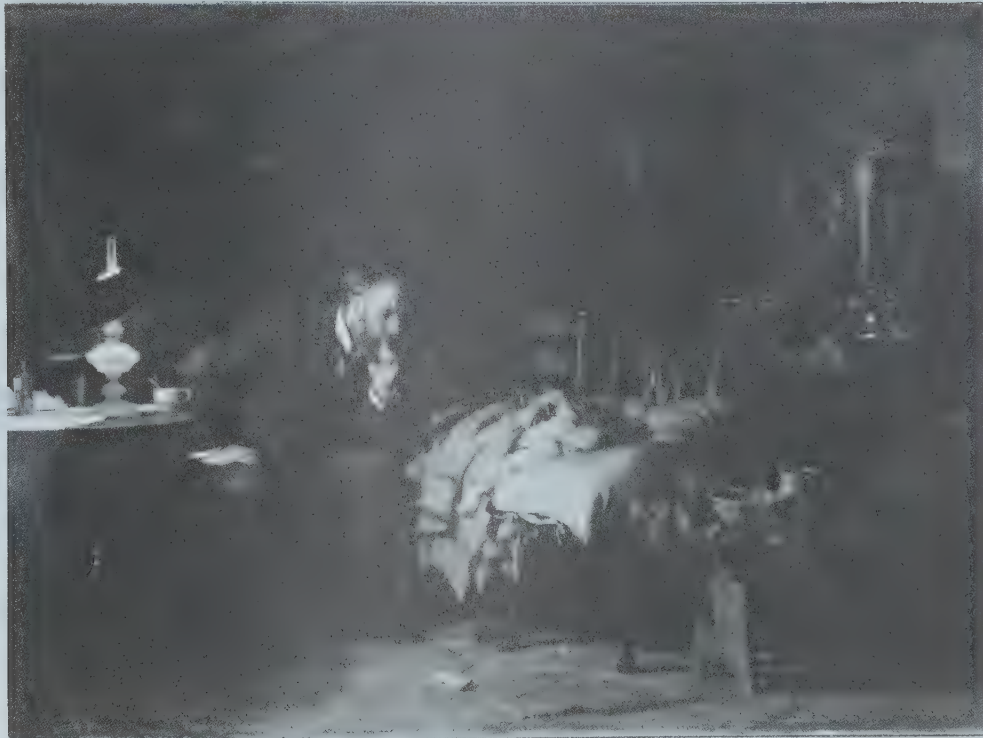
"Less than 300 years ago, scores of Salem, Mass., residents stood accused of sorcery. Often the evidence was the presence of 'witchmarks' on their bodies. Some of the townspeople were 'possessed by demons'. But the condemning witchmarks of one era are the common warts of another, and the 'devil's seizures' gradually became understood and treated as epilepsy . . ."



WITCH TRIAL: THE BETTMANN ARCHIVE

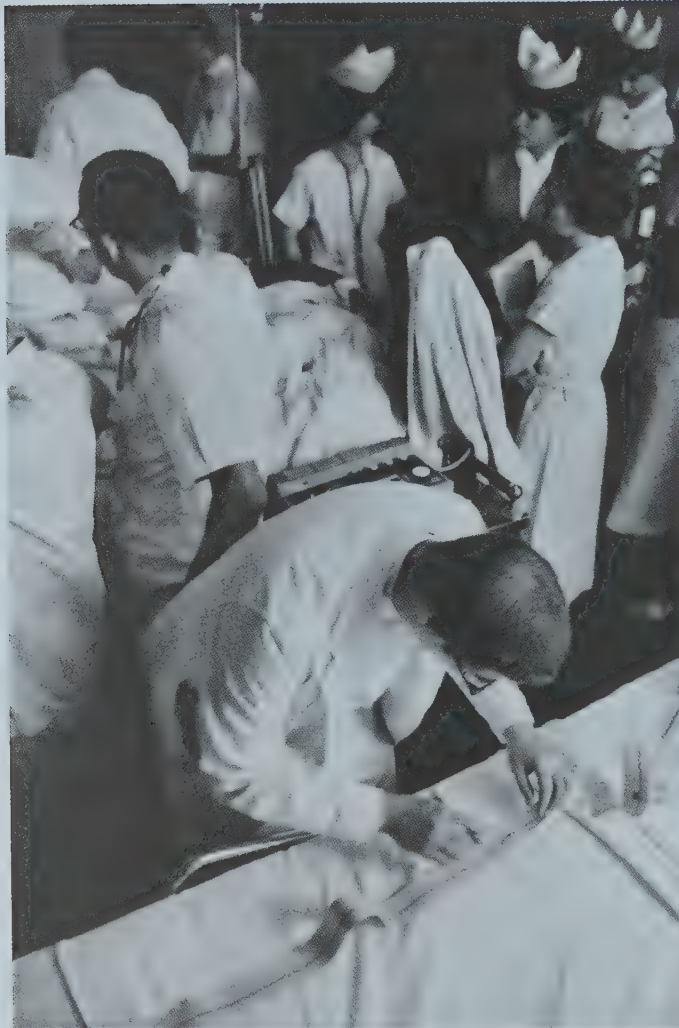
“A pioneering population moved West, and as it did, thousands lost their lives to smallpox and cholera, to scarlet fever and death in childbirth . . .

“If you can recall the famous painting, ‘The Doctor’, you can visualize what constituted health care for a large part of our country’s history. A husband consoles his wife as their child lies ill on a makeshift bed. The doctor sits near the child in obvious deep concern and watches for changes in the patient’s condition . . .”



“THE DOCTOR”: COURTESY TATE GALLERY, LONDON

“Consider what that picture might be today. The single doctor could be augmented by nurses, anesthesiologists, pathologists, technologists and other specialists. Aggressive diagnosis through dozens of complex laboratory tests would replace the wait for symptoms to materialize. If it were needed, surgical instrumentation would be available for bold procedures undreamed of even 10 years ago. Drugs, artificial organs and cobalt therapy might all be part of the picture . . .”



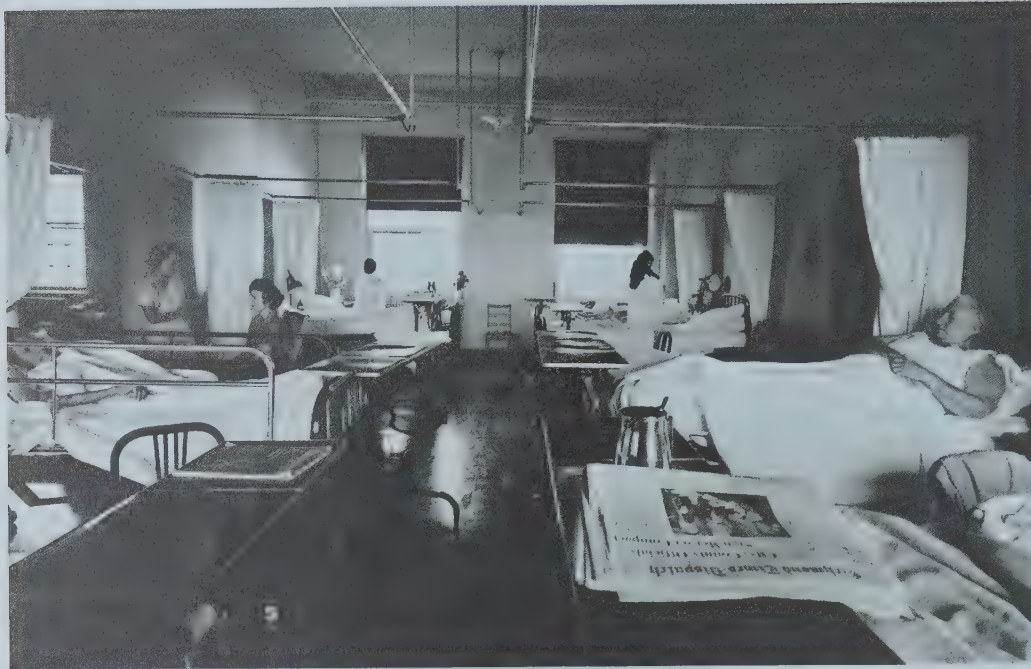
THE HOSPITAL: HARBUTT/MAGNUM

“The title of that new picture would be ‘The Hospital’. For it is the hospital which offers a collection of skills and equipment found nowhere else. It has become the focal point for health care . . . In 1930, about 6.5 million patients were admitted to short-term, general hospitals in the U.S. In 1966, these hospitals—numbering nearly 6,000—recorded 29.1 million admissions. The comparison shows an admissions increase of over 400 per cent for a period in which the population increased only 60.4 per cent . . .”



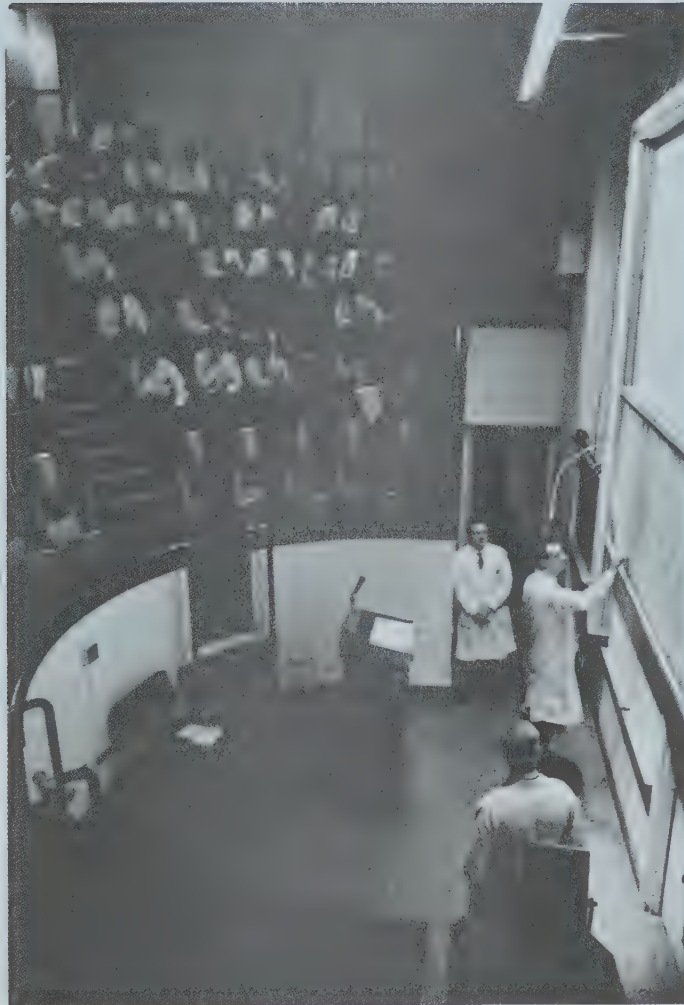
MAYO WAITING ROOM: PABEL/BLACK STAR

"The increased utilization of hospitals has not come without problems, and the problem of space is perhaps most apparent. Construction of U.S. hospital and nursing home facilities has reached nearly \$2 billion per year, almost double the 1960 rate . . . Hospitals offer about 1,678,000 beds. But to fill projected needs for 1975, that number will have to be increased to more than 3,243,000. And to make matters more difficult, approximately 22,000 beds become obsolete each year . . ."



HOSPITAL WARD: HAUN/BLACK STAR

"And we have a people shortage. One out of every 50 full-time workers in America today is employed by a hospital. There are more employees per patient than ever before —261 employees per 100 patients in 1966 compared with only 178 per hundred in 1950 . . . But estimates of current hospital personnel needs show a shortage of 257,000 professional and technical employees. To close this gap would require a 20 per cent increase in hospital staffs. Some estimates for 10 years from now predict a shortage of a million people in health careers . . ."



DOCTORS IN TRAINING: WILCOX/PHOTO RESEARCHERS

"Costs present still another problem. Per capita expenditures for hospital services have risen from \$15 to \$68 in a 15-year period. In 1966, hospitals spent more than \$14 billion for facilities, personnel, supplies and equipment . . . Total national health care expenditures will probably exceed the 50 billion mark in 1968 . . . We need to be appreciative of what we are receiving, just as we are concerned about what we are spending. For many illnesses, we spend less time in the hospital and enjoy a better chance of recovery. For others, which once would have been fatal, we now have cures through a vast array of skilled people and complex instrumentation. . ."

DATE	DESCRIPTION	ICD-9	ICD-10	CHARGE	CHARGE
24 0104	ADMISSION LAB TESTS	0012	H003928I	8.25	6.00
24 0104	ADMISSION LAB TESTS	0012	H003928I	8.25	6.00
29 7912	3300 6 BED WARD	0612	HX06326C	30.00	24.00
10 7912	3300 6 BED WARD	0612	HX06326C	30.00	24.00
11 7912	3300 6 BED WARD	0612	HX06326C	30.00	24.00
12 010	LATE CHECK OUT		0X0399Z	16.50	
10 1126	OPERATING ROOM		H0C1029G	160.00	128.00
9 5037	XRAY HAND		H0H2027J	8.50	6.80
9 5037	XRAY HAND		H0H2027J	8.50	6.80
0 6622	HEMAT COUNT C B C		F003928I	.50	.40
0 6622	HEMAT COUNT C B C		H0D3928I	4.75	3.80
0 6011	SURGICAL SPECIMEN I CLA		F003928I	5.00	4.00
0 6011	SURGICAL SPECIMEN I CLA		H0D3928I	5.25	4.20
1 7912	3300 6 BED WARD	0612	HX06326C	33.00	26.40
0 7600	MISC SUPPLIES DR		HX04955K	1.50	1.20
9 8184	DRUGS SKIN PREP.		H0K5922H	.75	.60
9 8133	DRUGS SEDAT.HYPNOT.		H0K5922H	.50	.40
0 8127	DRUGS ANALGESIC		H0K5922H	1.60	1.28
1 8131	DRUGS CNS AGENT		H0K5922H	2.45	1.96
0 8133	DRUGS SEDAT.HYPNOT.		H0K5922H	.50	.40
0 8131	DRUGS CNS AGENT		H0K5922H	5.80	4.64
10 8154	DRUGS CATHARTIC		H0K5922H	.75	.60
11 8184	DRUGS SKIN PREP.		H0K5922H	.90	.72
11 2570	TELEVISION RENTAL		H0X0399Z	3.50	
10 4055	ANESTHESIA DRUGS & SUPP		H0E1245L	26.00	20.80
10 7638	MED SUPPLIES OPER RM		HX04955K	1.50	1.20
11 8154	DRUGS CATHARTIC		H0K5922H	.75	.60
01 8127	DRUGS ANALGESIC		H0K5922H	2.25	1.80
10 8551	DRUGS IV SOLTN 1000C		H0G5922H	3.00	2.40
11 0800	PHARMACY DRUGS HOME		H0L0399H	3.75	

HOSPITAL BILL, GALARNEAU

“As for future trends, one need not be a prophet to suggest there will be more people, that they will use hospitals more and have more done to them and for them there, and that they will spend more for hospital and health care . . . A rising economy and increasing education will bring greater expectations for health services . . . This country’s population of more than 200 million will jump to 211 million by 1970. The number of people over 65 will increase from 18.5 million to 20.5 million in the same period; this segment of the population currently uses over 30 per cent of hospital inpatient services . . .”



PATIENT: HAUN/BLACK STAR

“Companies such as ours do not have all the answers; we do have, however, some useful responses. We have invented and produced things which are less expensive than people—products which range from disposable syringes to complicated monitoring devices and automatic diagnostic equipment . . . The hospital manufacture of such items as dressings and solutions has been shifted to industry with the resultant economies of mass production and with increased quality control. Space problems have been reduced by purchasing-inventory systems which electronically link the hospital’s needs to industry’s supply . . . Our services are being expanded to provide greater assistance to health institutions in areas of planning, cost analysis, fiscal control and in-service training . . .”



MAKING SURGEONS' GLOVES AT AHSC: STERLING

"Modern technology has truly wrought miracles. Life-preserving kidney dialysis, recently available only to a fortunate few at extremely high cost and with frequent hospitalization, is now available at home while barely disrupting the patient's routine. We have a home-use kidney machine which looks like a piece of furniture and costs less than a new car . . .

"In surgery, artificial heart valves give new life to a patient who might have died, or at least been severely restricted in his activity, even 10 years ago. Now a diseased valve is replaced with one made of teflon, silicone rubber and chromium-cobalt-nickel alloy. And it's no longer a rare thing. More than 30,000 valves of this type have been implanted . . ."



IMPLANTING THE HEART VALVE: BERGMAN ASSOC.

“But science and industrialization bring problems along with cures. If cholera is no longer a serious health threat, auto accidents are. We have wiped out small-pox, but now face the problems of air pollution and respiratory ills . . . We have the problem of increasing levels of radioactivity and of safely disposing of radioactive wastes . . . Future advances of all kinds are not apt to be without their challenges to the health field . . .”



INDUSTRIAL TOWN: STERLING

“If it continues to grow at its present rate, the world’s population of 3.29 billion will double in the next 35 years. The extension of present standards of health care to those added billions is a massive challenge. But there is an even greater challenge in raising our current standards. In India, life expectancy is 42. In South America, the number of children who die before the age of six is 20 times greater than that of their counterparts in the U.S. Where we have one doctor for 750 people, some countries have one for 100,000 . . .”



CLINIC-INDIA: SILVERTONE/MAGNUM

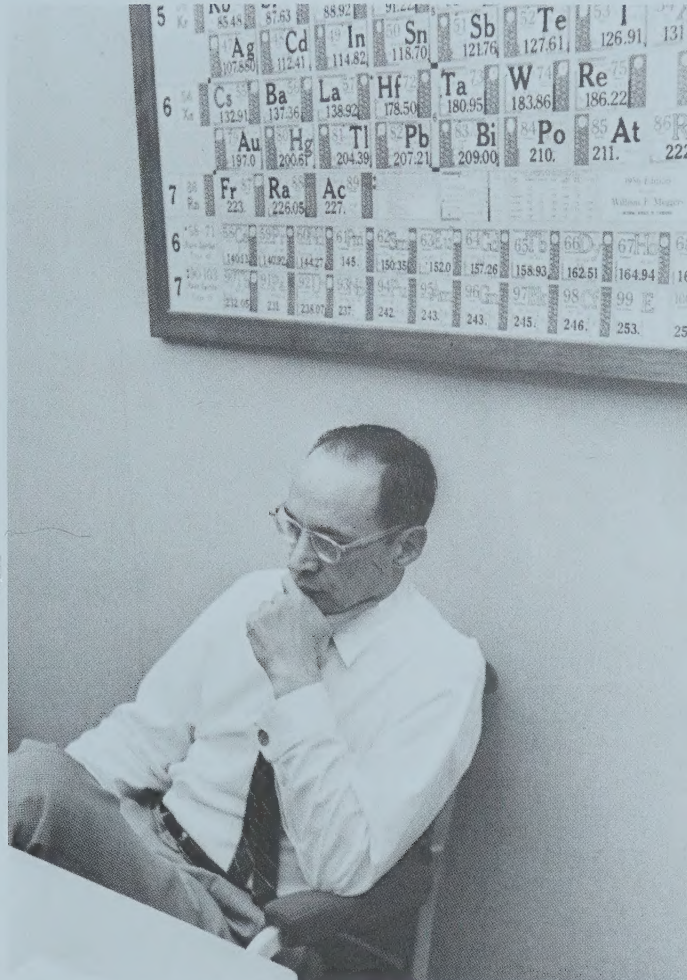
"Even at home, we have our work cut out for us. A recent congressional study states that more than 10 million children need eye care which they are not getting, and that more than 1.5 million have hearing impairments. About 20 per cent of all children under 17 have some kind of chronic ailment. Four million are emotionally disturbed, and half the children under 15 have never been to a dentist . . . The President has defined health care for every individual as a national goal . . ."



CHILDREN: STERLING

“Someone has said that only insofar as we have problems do we have opportunity. If that is so, we have an abundance of opportunity in the health industry. Ours is an increasingly complex business. Its demands on experience and research are seemingly without limit . . .

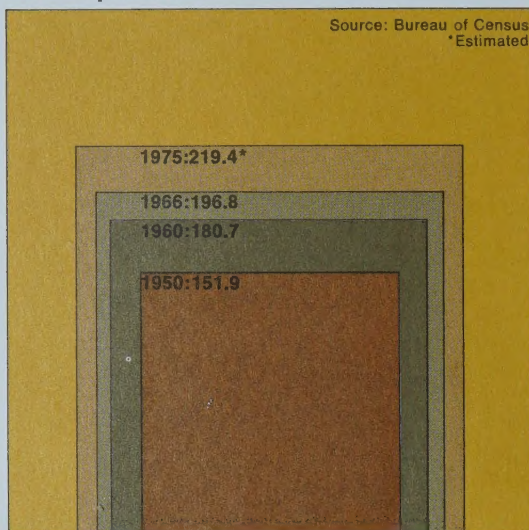
“We face questions of health and life like those man has confronted throughout history. Some of today’s problems are centuries old. Yet, many of the answers will come in our own lifetime and, possibly, from our own efforts . . .”



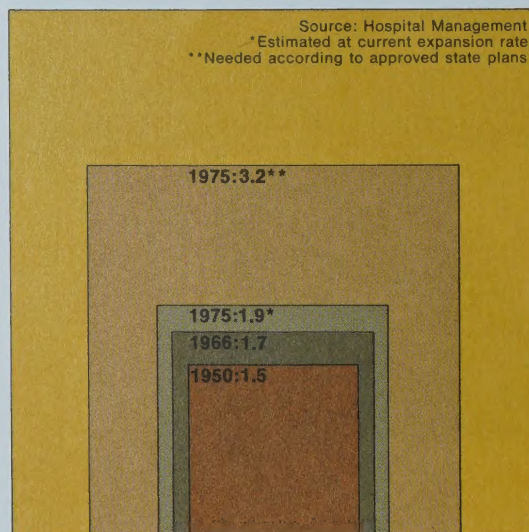
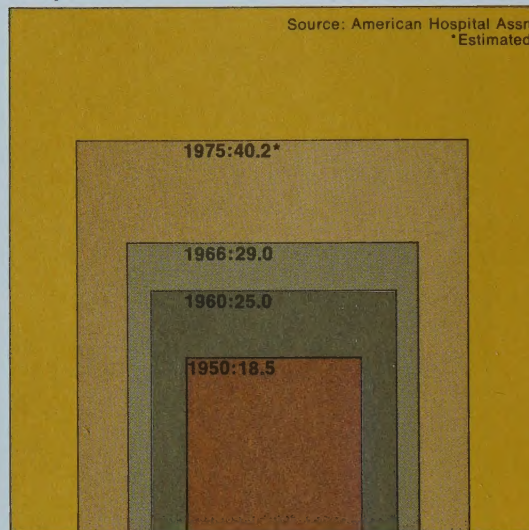
SCIENTIST: CHOPLIN/BLACK STAR

The reference charts illustrate some of the hospital and population trends discussed on the foregoing pages . . .

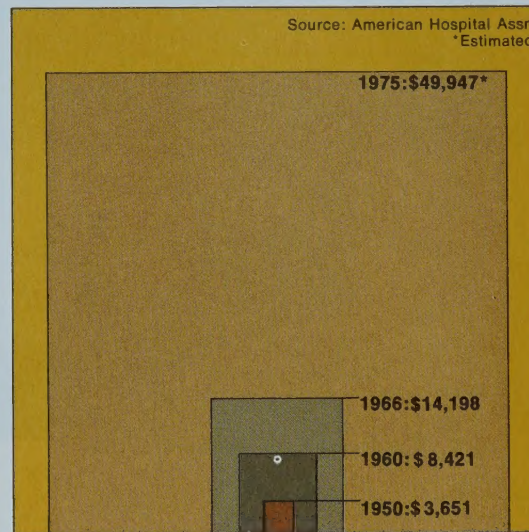
U. S. Population (in millions)



Hospital Admissions (in millions)



Hospital Beds (in millions)



Hospital Expenditures (in \$ millions)

